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OFFICE OF THE COMPTROLLER  
CITY OF ST. LOUIS



**DARLENE GREEN**  
Comptroller

*Internal Audit Section*

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**DR. KENNETH M. STONE, CPA**  
Internal Audit Executive

September 26, 2008

Dana Scott-Person, Executive Director  
North Newstead Association & New Vision Child Developmental Center  
4601 Pope Avenue  
Saint Louis, Missouri 63115

RE: Fiscal Monitoring Review of North Newstead Association & New Vision Child Development Center, Community Development Block Grant, Community Based Development Organization (CBDO) Programs, Contracts #06-31-54, #07-31-54 & #07-11-90, CFDA #14.218 (Project #2008-CDA16)

Dear Ms. Scott-Person:

Enclosed is a report of our fiscal monitoring review of the financial operations of North Newstead Association & New Vision Child Development Center, a not-for-profit organization, CBDO Programs for the period January 1, 2006 through December 31, 2007. The scope of fiscal monitoring is substantially less than an audit, and as such, we do not express an opinion on the financial operations of North Newstead Association & New Child Development Center. Our fieldwork was completed on March 27, 2008.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for Professional Practice of Internal Auditing* and through an agreement with the City of St. Louis Community Development Administration (CDA) to provide fiscal monitoring to all grant subrecipients.

If you have any questions, please contact Internal Audit Section at (314) 622-4723.

Respectfully,

A handwritten signature in black ink that reads "Kenneth M. Stone".

Dr. Kenneth M. Stone, CPA  
Internal Audit Executive

Enclosure

cc: Honorable Darlene Green, Comptroller  
Bennice Jones-King, Alderwoman – 21<sup>st</sup> Ward  
Jill Claybour, Acting Executive Director, CDA  
Lorna Alexander, Special Assistant for Development, CDA



# CITY OF ST. LOUIS

**COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)  
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)**

**NORTH NEWSTEAD ASSOCIATION  
& NEW VISION CHILD DEVELOPMENT CENTER  
COMMUNITY BASED DEVELOPMENT ORGANIZATION (CBDO)  
PROGRAM**

**FISCAL MONITORING/SPECIAL REVIEW  
JANUARY 1, 2006 THROUGH DECEMBER 31, 2007  
Project #2008-CDA16**

**DATE ISSUED: SEPTEMBER 26, 2008**

**Prepared by:  
The Internal Audit Section**



## OFFICE OF THE COMPTROLLER

**Honorable Darlene Green, Comptroller**

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**INTRODUCTION**

**Background**

**Contracts Names:** North Newstead Association & New Vision Child Development Center (Agency)

**Contract Programs:** Community Block Development Organization (CDBO)

**Contract Numbers:** 06-31-40, 07-31-40 & 07-11-90

**Contract Periods:** January 1, 2007 through December 31, 2007

**Contract Amounts:** \$100,000 Increased to \$157,867 (Contract #06-31-54)  
\$100,000 increased to \$150,000 (07-31-540)  
\$125,000 (Contract #07-11-90)

The purpose of CDBO Program is to combat physical deterioration in the Agency's neighborhood through home improvement, infrastructure enhancements and commercial redevelopment. CDBO program also provides funds for the Agency's day care facility in the same vicinity.

**Purpose**

The purpose of this fiscal monitoring/special review was to examine the procedures and internal controls surrounding the Agency's financial operations and its compliance with the applicable federal, state and local CDA requirements.

**Scope and Methodology**

Our procedures included inquiries regarding the Agency's internal controls relating to federal grants passed through the City of St. Louis Community Development Administration (CDA). We confined the review to evaluating the financial operations of NNA for the period January 1, 2006 through December 31, 2007. Our procedures also included reviews for compliance with federal state and local CDA requirements. Our fieldwork was completed on March 27, 2008.

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**INTRODUCTION**

**Exit Conference**

We offered the Agency opportunity for an exit conference, however, the Agency declined.

**Management's Responses**

We received management's responses to the observations and recommendations noted in the report from the agency on June 19, 2008. These responses have been incorporated into the report.

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**CONCLUSION AND SUMMARY OF OBSERVATIONS**

**Conclusion**

The Agency did not fully comply with the applicable federal, state and local CDA requirements.

**Status of Prior Observations**

The Agency's most recent fiscal monitoring report dated April 5, 2007 contained the following observations:

1. Failure to Maintain Pertinent Financial Records (New Vision contract numbers 05-11-90 and 06-11-90)

*This observation has been **resolved**; The Agency hired a bookkeeper and implemented a computerized accounting software package.*

2. Failure to Accurately Report Quantity of Service Units (New Vision contract numbers 05-11-90 and 06-11-90).

*This observation has been **resolved**; The Agency reimbursed the City for \$126 on March 16, 2007.*

**Summary of Current Observations**

The opportunity exists for the Agency to strengthen the internal controls surrounding their financial operations. The following are observations resulting from our review:

1. The Agency Has Going Concern Issues
2. The Agency Needs to Improve Its Internal Controls
3. The Agency Did Not Comply With Contract's Personnel Schedule
4. The Agency Did Not Have Internal Procurement Procedures
5. The Agency Needs to Safeguard Grant Funded Fixed Assets
6. The Agency Did Not File Monthly Financial Reports in Timely Manner

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**CONCLUSION AND SUMMARY OF OBSERVATIONS**

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

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**1. The Agency Has Going Concern Issues**

Going concern refers to an entity's ability to function as a business entity. It is based on the assumption that it will continue operations for the foreseeable future. In addition, going concern measures the entity's ability to realize assets, discharge liabilities in the normal course of business, and generate sufficient resources to stay operational.

There are doubts about the Agency's ability to continue as a going concern based on the analysis of its financial statements for the year ended December 31, 2006 (financial statements for 2007 were not available at the completion of this review) and other going concern factors as follows:

- **Liquidity Ratios**

Liquidity ratios provide information about an entity's ability to meet its short-term financial obligations and generally include current and cash ratios.

The current ratio (working capital ratio) is the ratio of current assets to current liabilities and shows an entity's ability to meet its obligations in the ordinary course of business. The cash ratio is the most conservative liquidity ratio. It excludes all current assets except the most liquid, cash and cash equivalents, and is an indication of the entity's ability to pay off its current liabilities if immediate payments were demanded. Both ratios should be equal to or greater than one. A number below than one indicates that the entity may not be able to meet its short-term financial obligations.

The Agency's both current and cash ratios were below one – current ratio 0.29 & cash ratio 0.18.

- **Excess of Expenditures over Revenues**

The Agency's expenditures for the year were in excess of the support and revenues by \$141,476.



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**1. Continued...**

- **Net Assets**

The Agency had negative net assets of \$187,990 at the beginning of the year. Financial statements showed a positive balance of \$1,048,418 at the end of the year. This balance, however, was arrived at after accounting for a prior year adjustment of \$1,377,884. The Agency stated the adjustment was made because previous accountants were replaced and prior year's net asset balances had to be recalculated and adjusted. However, an analysis and explanation of such adjustment was not provided. Without this adjustment, the net assets at the year-end would be a negative \$141, 476.

- **Other Going Concern Factors**

- Some checks had indications on the *memo* line that they were written from one program activity account to cover payroll for another program activity; and later re-paid. For example, a check would be written from the rental property Gateway Bank account or Child Development Center National City Bank account to cover payroll expenditures for the Agency's account at Commerce Bank.
- The reconciliation summaries for the Agency's account at Commerce Bank had an average negative balance of \$5,387.15 for ten of the eleven months reviewed during calendar year 2006. One reconciliation summary for calendar year 2007 had a negative balance of \$502.55.
- In 2006 and 2007 nine (9) and fourteen (14) checks respectively were returned for non-sufficient funds resulting in returned check fees of \$297 and \$532 respectively for those years (these checks cleared the bank subsequently.)

Based on the above, there may be material uncertainties about the Agency's ability to continue operations that need to be disclosed; funding sources may consider going concern issues a sign of increased risk and may discontinue the funding.

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**1. Continued...**

**Recommendation**

We recommend the Agency actively seek additional funding sources and other means of generating income in efforts to achieve a more positive financial outlook.

**Management's Response**

*North Newstead Association (NNA) operates three lines of business, unlike many neighborhood associations in the area. NNA realizes the need to increase and diversify sources of income. In fact, we completed a strategic planning process in 2003 and identified specific objectives. Those objectives have been reflected in the annual CBDO contracts since 2004. Management's goal has always been to generate enough revenue to become a self-sustaining organization. To achieve this goal, NNA developed rental property, built and operates the New Vision Child Development Center, and competed aggressively for major development funds for Low Income Housing Tax Credit projects, one of our largest potential source of revenue.*

*Our positive relationships with lenders, investors and vendors and the stability of the organizational leadership have allowed the association to continue to provide quality housing, services and employment to our community, even in times of financial struggle.*

*While we continue to seek additional funding sources, grants and revenue streams, to characterize "There may be material uncertainties about the agency's ability to continue operations that need to be disclosed; funding sources may consider going concern issues as a sign of increased risk" is an unduly harsh and incongruous representation of North Newstead Association.*

*A hypothetical situation in which all of our creditors would demand immediate payment is highly unlikely. NNA total mortgage and line of credit debt equal less*

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*than 50% of real estate values. NNA consistently makes payments on time and has good overall relationships with its lenders.*

*The current liabilities and long-term debt are not matters of concern with our lenders and investors. Most of the liabilities and debt are associated with New Vision Child Development Center and not our core business of real estate development.*

*Most of the current liabilities (line of credit loans) can be eliminated from developer's fees of a major LIHTC project. The intense competition for the limited funds for these projects relies on many factors, including high priority from the City. Unfortunately, NNA has not received the required support to secure a major project since 2005.*

*NNA did not spend \$141,476 in excess of income in 2006 as the draft City audit [report] states. Depreciation, which was \$185,403 in 2006, is not a standard operating budget expense. Net assets decreased due to increase in depreciation. If those expenses had not applied, revenues would exceed expenses by \$43,927.*

*Finally, all transfers from one program activity to another to cover payroll expense are only done as a last resort to ensure employees are paid. Those transfers are all documented and all funds come from unrestricted accounts, not CDBG funds.*

**Auditor's Comment**

We acknowledge the non-cash basis of depreciation. The Agency is reporting on an accrual basis. Generally Accepted Accounting Principles (GAAP) requires accounting for depreciation. The program expenditures did exceed revenues and support by \$141, 476. We stand by our observation.

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**2. The Agency Needs to Improve Its Internal Controls**

Per the CDA Operating Agency Procedures Manual, proper internal controls are a combination of procedures including functional job responsibilities, hiring qualified personnel, and keeping records that create accountability in the Agency's financial system while safeguarding assets.

We interviewed employees, reviewed a sample of Agency's financial records and observed the check writing process. Some basic elements of internal control were inadequate and needed improvement. These included:

- Segregation of Duties  
Duties of functions within an entity should be separated so that one person does not process a transaction from beginning to end. Duties that should be segregated include:
  - Authorization
  - Recording of transaction
  - Custody of assets

We noted that the Agency's office manager distributes the mail, processes expenditures, and performs bank reconciliations; the development specialist collects rent from the rental units, writes the checks to pay rental property expenditures, records and deposits rental income collected.

The lack of a segregation of duties prevents checks and balance that are necessary to maintain the integrity of the information. Errors and omissions, intentional or unintentional, may go undetected. It also provides an opportunity for the manipulation of accounting. As a consequence, the following could occur:

- Inaccurate financial information/documentation
- Misappropriation of assets
- Improper use of funds or modification of data

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- Misstatement of financial statements

- Review & Approval

When a process is performed within an entity, it is desirable that another level of review and approval be performed by a knowledgeable individual independent of the process. The approval should be documented to verify that a review was performed. Review and approval are controls that help management determine if operational goals and objectives are being met.

The Agency does not have procedures in place to prevent the cancellation submission of the same invoice more than once for reimbursement. We noted that in two instances the Agency submitted to CDA the same invoice twice for reimbursement as follows:

- An invoice for office supplies for \$ 785.17 was submitted for reimbursement under Reimbursement Requests Interim #6 and #9 for March and April 2006 respectively.
- An invoice for utilities for \$ 234.07 was submitted for reimbursement under two different contracts; once under contract #06-31-54 with reimbursement Request #22 dated December 31, 2006; and again under contract #07-31-54 with the Request #1 dated January 24, 2007.

The lack of adequate review and approval may result in the following:

- Overlooked errors resulting in misstatements that could affect financial and operational decisions
- Inaccurate or incomplete information in accounts or reports
- The inability to detect irregularities

*Note: CDA detected these errors and did not reimburse the Agency twice for these invoices.*

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**2. Continued...**

- Check Signing Procedures

The CDA Operating Agency Procedures Manual requires that two duly authorized individuals sign all disbursement checks. A review of cancelled checks revealed that the Agency did not have all of its checks signed by the two authorized signatories. The Agency's non-compliance with the CDA requirements may result in unauthorized expenditures and/or misappropriation of grant funds.

- Written Policies & Procedures

Written policies & procedures codify management criteria for executing an organization's operations. They document business processes, personnel responsibilities, an organization's operations and promote uniformity in executing and recording transactions. Written policies and procedures also serve as training tools for employees.

The Agency does not maintain internal written policies & procedures for its operations.

If written policies and procedures do not exist, are inaccurate, incomplete or are not current, the following could result:

- Inaccurate and unreliable financial records due to inappropriate recording of transactions.
- Inconsistent practices among employees.
- Processing errors due to a lack of knowledge.

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- **Accounting System**

Accounting is a system that measures business activities, processes that information into reports and communicates the findings to decision makers. Two major controls of an accounting system are accurate posting of accounting transactions and adequate account review and reconciliation. A lack of adequate knowledge of an organization's accounting system could result in:

- Misstated financial report
- Inaccurate and unreliable financial records

The Agency installed the QuickBooks accounting system. Not all employees received training on this system. In addition, written instructions were not readily available to all employees therefore, the employees may not have had the necessary knowledge or understanding of the application to use it correctly and effectively. The financial reports generated were incomplete and unreliable.

Without proper internal controls, the Agency may not operate efficiently and effectively to meet its goals and objectives, income and expenditures may not be properly accounted for; errors and irregularities may not be detected and corrected timely; and financial records prepared may not be reliable.

The Agency believed compensating controls were in place. A certified public accountant has been retained to prepare quarterly financial reports and monthly bookkeeping if needed. Two authorized board members review invoices and support documentation every other Thursday before signing checks. An accountant has been retained by the Child Development Center to prepare bank reconciliations, balance sheets and income statements. The executive director reviews non-routine expenditures before the board members sign the checks.

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**2. Continued...**

**Recommendation**

We recommend the Agency improve internal controls and comply with CDA regulations by implementing the following:

- Separate the duties of the development specialist for rental properties so that she is not collecting, recording and depositing rental income. Also, have the bank reconciliations performed by personnel that do not write the checks.
- Have the Agency's executive director authorize purchases, review and approve invoices before the checks are written and presented to the board members for signature.
- Stamp invoices "PAID" with check number and date when paid and stamp "reimbursed" when reimbursed by CDA to ensure they are presented only once for reimbursement.
- Designate another board member to sign checks so there are always at least two members available to sign checks as required by CDA.
- Develop internal written policies and procedures for staff.
- Train the management and other required staff on use of the Agency's accounting system and provide a written instructions manual to all employees for future reference as necessary.
- Perform periodic reviews of the Agency's financial reports.

**Management's Response**

*North Newstead Association is proactive to [have] established policies and procedures that comply with good operating and financial practices. Many of the findings of the Comptrollers audit did not accurately reflect the agency's diligence in record keeping. Obviously, minor mistakes such as a repeat invoices or one of the authorized check signers unavailable due to illness are rare. As a result of the audit, the NNA board has adopted a resolution to clarify policy on check signatures and*



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*approved an additional signer. In addition, our personnel were new users of the QuickBooks system for the period of the audit and are now better trained and more proficient.*

*While we agree that improving our internal controls and complying with CDA regulations is vital, and will comply with most of the proposed recommendations, due to limited staff, some of our procedures differ from the recommendations made.*

*Specifically:*

- Separating duties of the Development Specialist for rental properties that she is not collecting, recording and depositing rental income. Also, have the bank reconciliations performed by personnel that do not write checks.  
*Our procedure requires a board member to review the monthly rent collection, deposit and recording of rental income. The Office Manager reconciles the rental accounts. We will institute a similar procedure for reconciliations of operating and childcare accounts.*
- Train the management and other required staff on use of the Agency's QuickBooks accounting system and provide written instruction manuals to all employees for future reference as necessary.  
*We limit access to QuickBooks system to authorized employees only to prevent inaccuracies and fraud. Additional staff will receive training as required.*

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**3. The Agency Did Not Comply With Contract's Personnel Schedule**

The Agency's contract with CDA states that the Agency shall:

- Comply with all terms and conditions set forth in the work program.
- Achieve all objectives and criteria and perform all activities needed to the delivery of these objectives in accordance to the budget in Part C of the work program.

The Agency is in non-compliance with the "Work Program Personnel Schedule" of the contract. During our review of a sample of administrative and payroll expenditures of the Agency submitted to CDA for reimbursement, we noted:

- For the contract #06-11-90, payroll expenses for two employees were to be reimbursed at 100%, the remaining seven employees' salaries were to be reimbursed at 50%. The Agency requested reimbursement for all employees at 100%.
- For the contract #07-11-90, payroll expenses for all employees were to be reimbursed at 49%. The Agency requested reimbursement for all employees at 100%.
- For both contracts, the Agency requested reimbursement for employees that were not on the personnel schedule.
- One employee's gross salary did not match the amount listed in the personnel schedule.
- The Agency also requested 100% reimbursement for workers' compensation, state unemployment and payroll processing expenses. These expenses were also required to be reimbursed at 49%.

The Agency's non-compliance with the "Work Program Personnel Schedule" of the contract, however, did not result in any overpayment to the Agency, because CDA adjusted the Agency's request for reimbursements to the budgeted amounts.

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**3. Continued...**

**Recommendation**

We recommend the Agency request reimbursement for administrative and salary expenditures only for employees listed in the personnel schedule and at the rates stated in the contract.

**Management's Response**

*We agree with and will comply with the proposed recommendations. Inadvertent mistakes were made in the internal processing of contracts #06-11-90 and #07-11-90. Personnel now responsible for submissions have received additional training which should result in reports that are more accurate.*

**4. The Agency Did Not Have Internal Procurement Procedures**

For best business practices, an entity should establish internal threshold amounts for purchase authorization and approval. In addition, CDA Operating Agency Procedures Manual requires the Agency to competitively bid for all services, supplies, and equipment over \$200.

While obtaining and documenting our understanding of the Agency's policies and procedures, we were informed that the Agency had not established internal threshold amounts for purchases. In addition, during testing of expenditures we noted expenditure for \$690 (for coil furnace repair/water damage) did not go through the bidding process.

The Agency stated that internal threshold amounts had not been set due to oversight. In addition, the Agency's staff stated they follow the CDA procurement guidelines when required. However, in emergency situations (water flooding the building, air conditioning or furnace going out) there may not be ample time to obtain bids.

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COMMUNITY BASED DEVELOPMENT ORGANIZATION (CBDO) PROGRAMS  
FISCAL MONITORING REVIEW  
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**DETAILED OBSERVATIONS, RECOMMENDATIONS  
AND MANAGEMENT'S RESPONSES****

**4. Continued...**

If the Agency does not establish internal threshold amounts, and follow the CDA procurement procedures, it is not in full compliance with the CDA contract and there is potential risk that federal funds are not spent in an open and freely competitive manner as well as being awarded on a cost effective basis.

**Recommendation**

We recommend the Agency comply with CDA procurement procedures as well as establish threshold amounts for routine purchases, and amounts for purchases that would require initiation and authorization by the executive director and/or approval by the Board of Directors. In addition, the Agency's threshold purchase amounts should not conflict with CDA's procurement policy and procedures.

**Management's Response**

*We agree with and will comply with the proposed recommendations. We have established internal threshold amounts in accordance with CDA policy.*

**5. The Agency Needs to Safeguard Grant Funded Fixed Assets**

Fixed assets funded by Community Development Block Grant (CDBG) should be identified as such. This information is needed because these fixed assets are required to be returned to the funding Agency at the end of the contract.

While performing a fixed asset review, we noted that items on CDBG funded Equipment Inventory Report were not physically tagged as such.

If the assets are sold, vandalized or stolen, and are not identified as property of the funding source, the entity responsible for replacing or entitled to recovering value for the items may not be properly determined.

**CITY OF ST. LOUIS  
COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)  
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)  
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**5. Continued...**

**Recommendation**

We recommend the Agency identify the CDBG funded property and equipment by physically placing tags on them.

**Management's Response**

*We agree with and will comply with the proposed recommendations.*

**6. The Agency Did Not File Monthly Financial Reports in Timely Manner**

CDA requires that the Agency submit its monthly financial reports by the 10<sup>th</sup> day of the following month.

The Agency submitted five out of seven monthly reports on file an average of 4.7 days late for the sample reviewed. The Agency is not in compliance with CDA's regulations.

However, we did note that the Agency filed its IRS Form 990 for 2006 in a timely manner.

**Recommendation**

We recommend the Agency comply with CDA regulations and submit its monthly reports by the 10<sup>th</sup> day of the following month. Also, assign a back-up staff member to prepare the monthly reimbursement request when the regularly assigned personnel is not available.

**Management's Response**

*We agree with and will comply with the proposed recommendations.*